



Statement of Srikant Sastry, Principal,
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before the Subcommittee on Economic Development,
Public Buildings, and Emergency Management of
the Transportation and Infrastructure Committee

U.S. House of Representatives

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Chairwoman Norton, Ranking Member Diaz-Balart and Members of the Committee:

It is an honor to appear to discuss Grant Thornton's work assessing the impacts of EDA's construction program. My name is Srikant Sastry. I am a Principal with Grant Thornton LLP's Global Public Sector practice in Alexandria, Virginia. I was the principal-in-charge of Grant Thornton's study for EDA. Sitting behind me are: Mr. John Adams, who led the study for Grant Thornton and Dr. Peter Arena, founding principle of ASR Analytics LLC. ASR was our partner on this project and Dr. Arena was the study's Principal Investigator.

In early April 2007, EDA contracted with Grant Thornton to "develop a methodologically rigorous evaluation of the effectiveness of EDA's construction program." We accomplished this objective through application of econometric methods, collaboration with EDA, consultation with key stakeholders such as the Office of Management and Budget (OMB) and the Government Accountability Office (GAO), and independent review from a panel of academic experts.

The project was conducted over a seventeen month period ending September 30, 2008. We reviewed EDA's construction grants, those made to support local communities in the acquisition or development of land and improvements for use for a public works, public service, or development facility. Construction grants can also be made for the acquisition, design and engineering, construction, rehabilitation, alteration, expansion, or improvement of such a facility, including related machinery and equipment. In addition to providing direct assistance, construction grants are intended to leverage local and private sector matching funds, generally fifty percent of the total project costs. Our review focused on job creation that resulted from EDA's investments. The complete history of our work is documented in the study itself, copies of which are available today for the Members' inspection. I would like to request that a copy of the study be included in the official hearing record.

One purpose of our study was to refresh the analysis conducted for EDA in the late 1990's by a team from Rutgers University and Princeton University, known as the Rutgers Study. It involved direct observation of impacts for a sample of 203 EDA construction grants completed in 1990. The Rutgers team applied two econometric techniques – input output analysis and regression analysis – to estimate the impacts of EDA's construction grants. The Rutgers Study found statistically significant impacts related to EDA construction grants. Given the age of the Rutgers study and the data it was based on, EDA asked us to review, validate and, where possible, improve upon it.

Our approach differed from the Rutgers study's approach. We relied on public use data, specifically jobs reports from the Bureau of Labor Statistics. This provided an external and unbiased source of data about employment levels. We developed regression models that examined the correlation between EDA construction grant dollars and changes in employment at the county level. These models accounted for the influence of other economic variables on employment levels, such as the pre-existing level of employment in each county and other economic and demographic statistics. By design, we developed multiple models and presented ranges of results in our report. This was done to maximize the credibility of our estimates by not tying them specifically and necessarily to a single model reflecting a single theory of economic development.

Another important aspect of our approach, as laid out in our proposal, was our on-going peer review committee. We worked with several professors and experts with significant backgrounds in econometric analysis and economic development. Their role was to validate that our method met academic standards for econometric modeling and economic theory, and to promote the study's objectivity and absence of bias in its methods.

During our study, we met with various stakeholders to review our approach and gain their insights. This included personnel at OMB with oversight responsibility at EDA. We also met with GAO personnel who had been involved in reviewing the Rutgers Study. Finally, we also met with representatives of about half of the thirty other Federal programs involved in economic development grant- and loan-making.

The models we developed corroborated the results of the Rutgers Study, showing that EDA grants have statistically significant impacts in the non-urban communities in which they are made. Specifically, EDA grants generate between 2.2 and 5.0 jobs for every \$10,000 of EDA investment. This translates into an EDA program cost of between \$2,001 and \$4,611 per job created.

To address urban jobs impacts more directly, we supplemented our models by conducting twenty-four direct observation visits to the sites of completed projects funded in part by an EDA construction grant. These site visits were conducted primarily for urban area projects. This was because our primary method – correlating EDA grant data with BLS jobs data – showed statistically significant results in non urban areas but did not show statistically significant results in urban areas. The study team believed that this was the case because EDA construction grants (typically between \$250 thousand and \$1 million) are too small compared to the size of most urban economies to register their effects in BLS jobs data. Based on data and information obtained during these site visits, we developed jobs impact estimates for each project. As documented in our report, the site visits yielded indicative results consistent with our non urban area models and with the Rutgers Study.

Our models also showed that project type makes a difference. We classified EDA programs into one of five project types: roads and other transportation projects, commercial structures, industrial park infrastructure, community infrastructure and business incubators. Our models showed that each project type had its own, unique range of impacts – each resulting in job growth.

We believe the methods and tools we developed in this study, and adopted by EDA, represent an effective and repeatable approach to measure job growth.

Thank you for the opportunity to address the distinguished Members of this Subcommittee. We hope our participation is helpful and we would be happy to answer any questions you may have.

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